United Nations A/64/886

General Assembly

Distr.: General
4 August 2010

Original: English

Sixty-fourth session
Agenda item 52
Follow-up to and implementation of the outcome of the 2002 International Conference on Financing for Development and the 2008 Review Conference

Letter dated 28 July 2010 from the Permanent Representative of Yemen to the United Nations addressed to the President of the General Assembly

I have the honour to transmit herewith a position paper containing the views and proposals of the Group of 77 and China as a substantive contribution to the deliberations of the ad hoc open-ended working group of the General Assembly to follow up on the issues contained in the outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development (see annex).

I would greatly appreciate it if the present letter and its annex were circulated to all Member States as a document of the General Assembly under agenda item 52.

(*Signed*) Abdullah M. **Alsaidi**
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Annex to the letter dated 28 July 2010 from the Permanent Representative of Yemen to the United Nations addressed to the President of the General Assembly

Position of the Group of 77 and China on issues related to the outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development: ad hoc open-ended working group of the General Assembly

1. Introduction

1. The Conference on the World Financial and Economic Crisis and Its Impact on Development took place in a period when the world was facing the most serious economic recession since the Great Depression. The crisis in the financial sector spread to the real economy, causing declines in gross national product (GNP), a fall in world trade and a rapid raise in unemployment.

2. Many developing countries, which had little to do with the causes, suffered from the worst effects of the recession, as their exports and GNP were affected. This contributed to a large foreign-exchange liquidity gap, and many developing countries' foreign reserves declined to low levels, threatening them with a new debt crisis.

3. The Conference addressed both short and longer term issues, including systemic problems that gave rise to the crisis, in a collective effort of the international community to reduce the immediate adverse effects as well as to discuss ways to prevent a recurrence of such crisis.

4. Since the Conference in June 2009, there are signs that the worst of the recession may be over, with the economies of developed countries moving from negative to positive growth, and the instability in the private financial system being reduced. This has been attributed to the rescue and bailout operations on one hand and the fiscal stimulus and expansionary monetary policies on the other hand.

5. However, the crisis is by no means over, and there are signs that the situation may worsen. The economic recovery took place in most of the developed countries and some developing countries, but did not reach many other developing countries. In recent months there has been increasing doubts about the sustainability of the global-level recovery, partly because of the new signs of financial instability and fragility arising from issues of sovereign debt in a few European countries.

6. Thus, while the problems that initiated the global financial crisis were located mainly in private financial institutions, new problems linked to public sector debt and public-sector budget deficits have arisen. Many experts are of the opinion that the world is entering into a period of significant instability in currency and financial markets.

7. Moreover, the policy measures of fiscal stimulus and low interest rates that helped to facilitate the recovery many have reached their limits and there is now a trend towards greater fiscal austerity. This may in turn limit the extent of economic growth in the next few years.

8. Further, several systemic issues confronting the global economy and made more evident by the crisis have still not been resolved yet. Among them:

- There are still significant global imbalances among countries with trade and current account surpluses and deficits.
- The level of global effective demand is significantly below the desired level, causing the global and national economies to perform below their normal levels and rates of growth.
- Measures to strengthen the regulation of financial institutions, markets and complex instruments are still being discussed.
- New evidence has emerged about the workings and adverse effects of speculative and manipulative mechanisms or instruments; however there are still no new measures to curb speculative excesses.
- There is still no international mechanism or institution for debt restructuring and orderly debt work-out.
- There is an even greater need for a mechanism to facilitate multilateral discussions on global economic issues and global economic policy coordination; however there is still progress on this.

9. The developing countries are presently facing several problems relating to the continuation of the global financial and economic crisis. These include:

- Continued weakness in export earnings in goods, due to lower demand and to the prices of export commodities which are still below the pre-crisis levels.
- Continued weakness in earnings from tourism, other services and remittances from overseas workers and other services.
- Reduced flow of foreign credit and foreign direct investments to many developing countries.
- Continued low level of foreign reserves in many countries, placing them at risk of entering a new debt crisis.
- The strong possibility of reductions in official development assistance (ODA) due to the new fiscal austerity measures being undertaken or planned in many developed countries.
- Reduced ability of governments to finance social and economic expenditure due to increasing budgetary constraints.
- Increases in many developing countries in the incidence of poverty, unemployment rates.
- Increased difficulties in fulfilling the Millennium Development Goals.
- The continuation of the present uncertain conditions in the world economy, or its deterioration, will affect the developing countries seriously.

10. In conclusion, the global financial and economic crisis is far from over and may even take on a new and more negative turn. The systemic problems facing the global economy have yet to be resolved. The reform of the global financial architecture is an unfinished business, and work in this area must be intensified. There are still major and unfulfilled objectives, including the provision of

development financing on a predictable manner to developing countries, the provision of funds to meet the urgent needs of developing countries arising from the effects of the crisis, and explore the possibility of the establishment of an international debt arbitration and debt work-out mechanism. The developing countries continue to face a myriad of economic and social problems that are caused by the continuation of the crisis.

11. Due to the above, there is an even greater need for activities to follow up the Conference on the Financial and Economic Crisis. The Member States of the United Nations need a forum in which to discuss the global economic crisis and its impact on development and developing countries, and to also discuss proposals to address the problems and issues.

12. The past two years' experience has shown the importance and usefulness of an open, transparent and inclusive multilateral forum for this dialogue and for discussing proposals for addressing the crisis, in line with the mandate provided by the decisions of the Conference and the relevant General Assembly resolution.

13. It is the conviction of the G-77 and China that the working group on the financial and economic crisis will continue its work.

14. The remaining chapters in this document contain the views and proposals of the G-77 and China on various issues that have been discussed by the working group in the past year. The group requests that these positions of the group, the recommendations and this introduction be included in the report of the working group that is to be submitted to the President of the General Assembly.

2. Debt sustainability

Impact of the crisis on debt sustainability

15. The recent publication by the World Bank under the title *Global Development Finance 2010: External Debt of Developing Countries 2010* shows that at the end of 2008, the dollar value of the total external debt of developing countries surpassed $3.7 trillion, with an increase of $268 billion, compared to the previous year.

16. According to the United Nations Conference on Trade and Development (UNCTAD) report on the impact of the financial and economic crisis on debt sustainability in developing countries, debt sustainability should not be viewed as simply the capacity to continue servicing debt obligations, but also as a recognition that debt servicing costs necessarily mean fewer funds available to fight poverty and meet the Millennium Development Goals (MDGs).

17. Unfortunately, the current crisis has demonstrated, once again, the vulnerability of developing countries to exogenous shocks and that the global downturn has affected the capacity of those countries to continue servicing their debt obligations, regardless of their good practices, with the result that fewer funds are available for financing development and the internationally agreed development goals, including the MDGs, laying therefore the foundation for a debt crisis in the years to come.

18. The outcome document recognizes this threat in its paragraph 33, affirming that appropriate measures must be taken to mitigate the negative effects of the crisis on the indebtedness of developing countries and to avoid a new debt crisis, as well

as supporting, making full use of the existing frameworks. Those measures should not be limited to the full use of the existing Debt Sustainability Framework, but should also include the provision of increased funds for debt rollover, innovative debt swap criteria, and increased concessionalities.

19. As the Secretary-General's report entitled "Towards a durable solution to the debt problems of developing countries" (A/64/167) recognizes, based on paragraph 31 of the outcome document, that the international community should help countries with access to international capital markets to develop new debt instruments and institutions which automatically reduce, or at least avoid amplifying, debt service in the presence of negative external shocks.

20. At the same time, the joint Debt Sustainability Framework of the International Monetary Fund and the World Bank should be put under continued review with a coordinated and cooperative approach and a full inclusion of the views of developing countries, in an open and transparent manner.

Temporary standstills and moratorium

21. During the June conference negotiations, the Group of 77 and China called for a temporary moratorium or standstill on debt servicing for developing countries in need. In the Secretary-General's report, it is mentioned that given the devastating effects of the financial crisis and the urgent need to prevent the worsening of debt ratios, which may lead to lower social expenditure and increase poverty, the UNCTAD secretariat proposed a temporary debt moratorium or standstill on official debt for low-income countries.

22. According to the report, the total amount of such a temporary moratorium is minuscule, constituting about $26 billion for the 49 low-income countries in 2009 and 2010 combined. It would immediately and unconditionally liberate resources, as part of a multifaceted approach to mitigate the impact of the crisis and reduce the build-up of unsustainable debt.

23. In that sense, the outcome document recognized, in its paragraph 15, the right of developing countries facing an acute and severe shortage of foreign reserves because of the fallout of the crisis to seek to negotiate agreements on temporary debt standstills between debtors and creditors in order to help mitigate the adverse impacts of the crisis and stabilize macroeconomic developments.

24. According to the above-mentioned report of the Secretary-General, such a policy could provide recipient countries with breathing space and offset some of the negative effects of contracting export revenue and financial inflows. The moratorium could function as a counter-cyclical measure and, by contributing to macroeconomic stability in recipient economies, play a role in sustaining global demand.

25. The operationalization of those rights recognized in the outcome document and reaffirmed in the recent General Assembly resolution 64/191 of 21 December 2009 depends only on an agreement between debtors and creditors, but it could also be established under an independent international sovereign debt work-out mechanism.

The provision of grants and concessional loans as the preferred modalities to ensure debt sustainability

26. For the past three decades, International Monetary Fund (IMF) loans and country assessments have been accompanied by demands that countries adopt a series of policy prescriptions, which in several cases had no relation to debt management and which have undermined the policy space of developing countries. In this regard, the G-77 and China call on the IMF to address the issue of conditionalities as an integral part of the reform process, including through re-examining the current economic parameters on which it bases its economic analysis and policy advice, and we reiterate that developing countries must have the necessary policy space to pursue tailored and targeted responses in accordance with their development needs and priorities.

27. In March 2009, the IMF announced an overhaul of its lending framework with the purpose of reducing conditionality and the creation of a new flexible credit line (FCL), some reforms in the exogenous shocks facility and the suspension of the structural performance criteria.

28. However, the precautionary oriented FCL will only be available for "strong-performance actors", with policies judged adequate by the Fund and other pre-set qualification criteria. Compared to previous years, slightly greater flexibility is shown in some programmes, but as the IMF recognizes, structural reforms will continue to be part of IMF-supported programmes.

29. According to the Secretary-General's report on external debt, out of the $750 billion pledged by some members of the international community as a response to the crisis, only $50 billion was targeted specifically to low-income countries and small and vulnerable States.

30. Therefore, substantial new and additional resources, inter alia, short-term liquidity and long-term development financing and grants, will need to be made available to developing countries to be utilized towards regeneration of the economies and recapitalization of national financial institutions, as way of ensuring debt sustainability while responding adequately to their social priorities, including health and education, in accordance with their national development strategies and priorities.

Enhance approaches to the restructuring of sovereign debt based on existing frameworks and principles

31. According to the *World Economic Situation* and *Prospects 2010*, many developing countries, including those that benefited from the current debt-relief initiatives, face enormous pressures on external payments and fiscal budgets. As of March 2009, the debt levels of almost 30 countries exceeded 60 per cent of their gross domestic product (GDP). The situation has been particularly severe for the commodity-exporting countries and aggravated in others due to the fall in foreign-exchange earnings, the reduction in export revenues, the higher cost for imported food and fuel, currency depreciations and deterioration of tax revenues.

32. Under the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative and the support of bilateral creditors, the 26 HIPC countries that have reached the completion point plus the 9 countries that have reached the decision point are receiving all or a portion of estimated debt relief of

$85.7 billion. Five pre-decision point countries still remain in analysis for an estimated $17 billion.

33. However, many of the countries that have not yet completed the requirements for full debt relief share some serious challenges, such as preserving peace and stability, improving governance and delivering basic services, requiring, therefore, extreme efforts from their Governments and the support of the international community. Another challenge is to ensure that eligible countries receive full debt relief from all their creditors, including non-Paris Club bilateral creditors, which remains very low.

34. At the same time, reducing debt-service payments is not sufficient to avoid the risk of debt distress. Thus, the debt situation of a number of HIPCs that have reached the completion point remain highly vulnerable to external shocks, among other reasons, because many of them continue to be heavily dependent upon commodity exports. Even prior to the global economic crisis, only about 40 per cent of the post-completion point HIPCs had a low risk of future debt distress, and the number of countries with a high risk of debt distress had increased from one to four.

35. On the other hand, middle-income countries and low-income countries that are not considered HIPCs face long-standing external debt problems which need to be addressed, inter alia, through an urgent assessment of their debt situation by the IMF. Some of them have managed to reduce their reliance on multilateral financing by drawing on private sector credit prior to the financial crisis, but today those credits are less likely to be available, exacerbating the difficulties of several middle-income countries and low-income countries to service their debts and to adopt counter-cyclical measures without reducing their investments on development.

An international sovereign debt restructuring and arbitration mechanism

36. In a paper prepared by the UNCTAD Secretary-General in 2009, it is mentioned that even in the presence of a more coherent international financial system, sovereign defaults are bound to happen. It is thus necessary to put in place a debt resolution mechanism aimed at guaranteeing a speedy and fair resolution of sovereign debt crisis.

37. UNCTAD has proposed the creation of such a mechanism since 1985. The proposal was reviewed in 1988 and was taken up by the IMF in 2001, recognizing therefore that the international financial system would also benefit from resolving debt problems in a rapid, less costly and equitable manner. The proposal of a sovereign debt restructuring mechanism within the IMF was rejected.

38. The Group of 77 and China reiterated this proposal during the negotiation process for the Conference on the World Financial and Economic Crisis, through the establishment of an independent international system of debt arbitration, such as a possible international bankruptcy court, in which countries facing risks of debt distress can have recourse to a debt standstill, a debt work-out with a burden-sharing procedure to be established and a continued lending facility to the country under a scheme of lending in arrears.

39. The outcome document, in its paragraph 34, opens the door to the design of such a mechanism through the mandate to explore the need and feasibility of a more structured framework for international cooperation in the area of sovereign debt restructuring. The Secretary-General's report corroborated this proposal and

emphasized the need for an international discussion on the design of a mechanism aimed at facilitating the resolution of sovereign insolvency.

40. This mandate is reaffirmed in General Assembly resolution 64/191, which emphasizes the special importance of a comprehensive and durable solution to the debt problems of developing countries, the need for coordinated policies aimed at fostering, inter alia, debt restructuring, and calling upon all countries to contribute to the discussions in the international financial institutions and other forums, on a more structured framework for international cooperation in debt restructuring.

41. The United Nations, and particularly this working group, is one of those other forums, and its role in the economic and financial affairs, including its coordinating role, along with the international financial institutions, has been recognized in the outcome document and in other General Assembly resolutions.

42. Therefore, this internationally agreed legal framework for the predictable and orderly restructuring of sovereign debt could be operationalized through an independent international body, taking into account the past experiences and the situations and needs of the debtor countries, in particular in the context of the complex debt restructuring, guaranteeing fair burden-sharing, to evaluate the debt situation of all countries faced with external debt problems and to propose the level and form of debt relief that needs to be provided.

3. Mobilizing additional resources for development

External financing gap

43. As a result of declining foreign investment, trade flows, revenues from tourism and remittances, developing countries faced an external financing gap of approximately $350 billion in 2009. Many developing countries were forced to curb domestic demand — thereby reducing their trade deficits — or to draw down their international reserves (or both). Overall, developing countries consumed approximately $362 billion of their international reserves last year.

44. In addition, many developing countries had to rely on increased borrowing from the international financial institutions. The World Bank increased its lending commitments by $12.8 billion in 2009 to record levels, and the IMF made additional commitments of $70 billion. Although developing countries welcome the decision to revive the special drawing rights (SDR) allocation, after decades of inaction, it is noteworthy that, as a result of the prevailing country quota distribution skewed in favour of developed countries, the new SDR allocation of $283 billion had limited benefits for developing countries, in particular least developing countries and countries in special situations, and falls short of the needs for financing for development.

45. The World Bank estimates that developing countries will face a financing gap in 2010 of $315 billion. Most likely, this gap will remain large for the next few years. In order to adequately respond to the crisis and address its long-term effects, therefore, short-term liquidity, long-term development finance and grants, at adequate levels and concessionary terms, will need to be made available to developing countries as a matter of priority. Regional development banks have a significant role in that regard and it is critical that the resources of these institutions be significantly scaled up.

46. The G-77 and China submit that international support is also needed to allow developing countries to implement counter-cyclical policies, in accordance with their national priorities and development strategies. Additional resources are needed, inter alia, for social protection, food security and human development, as well as for humanitarian assistance. It has even been estimated that countries eligible for World Bank/International Development Association (IDA) resources will require an additional $35-$50 billion to maintain current levels of social spending. Additional resources would be needed to scale up investment to mitigate the impact of the crisis and accelerate progress towards achieving the MDGs. Furthermore, those developing countries facing an acute and severe shortage of foreign reserves because of the fallout of the crisis should not be denied the right to make recourse to temporary capital controls and to seek agreements with creditors on temporary debt standstills, with a view to mitigating the adverse social and economic impacts of the crisis.

Official development assistance

47. ODA remains essential as both a complement to other sources of financing and a catalyst for development, facilitating the achievement of national development objectives, including the MDGs. The global crisis cannot be an excuse to avoid existing aid commitments. The outcome document rightly recognizes that an effective response to the current economic crisis requires timely implementation of existing aid commitments and that there is an urgent and unavoidable need for donors to fulfil them. Developed countries must meet and scale up their existing bilateral and multilateral ODA commitments and targets made, inter alia, in the United Nations Millennium Declaration, the Monterrey Consensus, the 2005 World Summit Outcome, at the G-8 summit at Gleneagles, in the Doha Declaration on Financing for Development and at the G-20 London summit. An enhanced predictable and sustainable flow of ODA is essential to meet the regular development challenges as well as the new and emerging challenges in developing countries, in particular in the least developed countries and other vulnerable developing countries.

48. It is troubling to note the Organization for Economic Cooperation and Development estimates that Development Assistance Committee countries will fall $21 billion short of their 2010 Gleneagles commitment. As a group, developed countries are still far from achieving the long-standing goal of mobilizing 0.7 per cent of GNP in ODA. In order to meet agreed commitments and targets, the G-77 and China reiterate the call on developed countries to establish clear and transparent timetables within their national budget allocation processes to reach the level of at least 0.5 per cent of ODA by 2010 and 0.7 per cent by 2015, at the latest. Notwithstanding the positive impact of debt relief on development, it should not be counted as part of the ODA contribution. The full implementation of these commitments will substantially boost the resources available to push forward the international development agenda and to assist developing countries to mitigate and more effectively respond to the crisis in accordance with their national strategies.

49. The G-77 and China concretely propose that donors and recipients, in conjunction with non-governmental organizations and civil society, undertake through a monitoring mechanism a comprehensive review of the ODA framework, with a view to promoting better coordination, avoiding fragmentation and duplication of activities, ensuring predictable flows over multiple-year periods and

allocating adequate resources to the countries most in need, especially the least developed countries and countries in special situations. In addition, donors and recipients shall jointly assess ODA priorities to increase assistance to developing countries to enable them to mitigate and more effectively respond to the crisis in accordance with their national strategies.

Trade

50. International trade can be an engine for development and sustained economic growth. Over the last year, however, the motor of trade has stalled and set into reverse. According to the World Trade Organization (WTO), the volume of world trade experienced its worst decline since World War II, contracting by approximately 12.2 per cent in 2009. In January 2010, world merchandise trade volumes were still significantly below the peak level attained in April 2008. The decline in trade has severely impacted on developing countries, including through the fall in exports and loss of export revenues, restricted access to trade finance, reduced export-oriented investment. In some cases, it has also led to balance-of-payments problems.

51. In order to fully harness the potential of trade it is important to uphold a universal, rules-based, open, non-discriminatory and equitable multilateral trading system that contributes to growth, sustainable development and employment, particularly for developing countries. In this context, developed countries should resist all protectionist measures and tendencies affecting developing countries, including agricultural subsidies and non-tariff barriers to trade, and rectify any trade distorting measures already taken, recognizing the right of developing countries to fully utilize their policy space consistent with WTO commitments.

52. The lack of progress in the negotiations of the WTO Doha Round is particularly troubling. Developed countries should demonstrate the flexibility and political will necessary for breaking the current impasse in the negotiations, with a view to concluding the Round as soon as possible to achieve an early and development-oriented outcome. The early conclusion of the Doha Round would provide a much-needed impetus to international markets, contributing to the consolidation of the recovery and the establishment of the foundations of sustained growth. The successful conclusion of the Round would be the single most important contribution that developed countries could make in the short term to promote development. It could yield a double dividend to the world economy in the form of a stimulus package and much needed structural reform, directly contributing to the achievement of the MDGs.

Private capital flows

53. Private international capital flows, especially foreign direct investment (FDI), can be an important complement to national and international development efforts. However, as a result of the crisis, capital flows to developing countries drastically declined last year. Despite a recent surge in portfolio investment to developing countries, capital flows for 2009 remained 20 per cent below their 2008 levels and well below their peaks in 2007. In the case of FDI, flows are projected to decline from their peaks of 3.9 per cent of developing country GDP before the crisis to around 2.8 to 3.0 per cent of GDP in the forthcoming years. Furthermore,

international capital flows to developing countries remain excessively concentrated in few large markets.

54. As a result of the crisis, as well as tighter financial regulations, the cost of capital to developing countries is projected to be higher, on average, in the medium term, than before the crisis. The tighter availability of funds is expected to affect economic prospects of developing countries, depressing their potential growth by as much as 0.2 to 0.7 percentage points annually, for 5 to 10 years.

55. While recognizing that international capital flows depend largely on decisions taken by private actors, the G-77 and China call on developed countries to take measures to facilitate and redirect such flows to developing countries in a more predictable, stable and equitable manner. In particular, developed countries should take concrete steps to avoid financial protectionism and rectify any measures adopted in that regard during the crisis, including subsidies to ailing industries and sectors. Additional efforts should be taken to enhance private flows in support of development and to maximize the development impact of FDI, particularly with regard to linkages with domestic production activities, transfer of technology and research and development activities.

56. For many developing countries, migrant remittances remain a significant source of international financing, contributing to meeting the external financing gap and promoting growth and development. Remittances have been severely affected by the crisis. After reaching their peak level in 2008, remittances decreased by 6.1 per cent in 2009. Given their positive role, developed countries, in cooperation with developing countries, should adopt measures to facilitate remittances and reduce transaction costs.

57. As highlighted in the outcome document, Member States should explore ways to strengthen international cooperation in the area of international migration and development in order to address the challenges of the current economic and financial crisis on migration and migrants. Unfair and discriminatory treatment of migrant workers should be resisted and unreasonable restrictions should not be imposed on labour migration. In light of the important contribution of migrant workers for both countries of origin and destination, the G-77 and China propose that the Secretary-General, in cooperation with the International Organization for Migration, to develop a mechanism, to be considered and adopted by Member States, to follow up with concrete measures on the attainment of the objectives set forth in paragraph 27 of the outcome document.

Innovative sources of financing

58. The economic and financial crisis has demonstrated the importance of scaling up development finance from traditional sources. It has also highlighted the positive contribution of innovative mechanisms of financing to assist developing countries in mobilizing additional resources for financing for development on a stable, predictable and voluntary basis. Such financing should be disbursed in accordance with the priorities of developing countries, should not substitute traditional sources and should not unduly burden them. While recognizing the considerable progress in innovative sources of financing for development, it is important to explore the possibility of scaling up present initiatives and developing new mechanisms. As work is expanded, priorities should remain focused, namely, on providing additional

stable and supplementary resources to complement traditional development financing.

4. New lending facilities from international financial institutions

SDR liquidity provision for developmental purposes

59. The global financial and economic crisis has demonstrated the need to urgently mobilize financial resources for liquidity (to meet financing gaps) and for developmental purposes. It has also renewed the role of SDRs as an important source of financing for development.

60. The G-77 and China believe that the expansion of SDR allocations is an effective and low-cost measure to quickly boost global liquidity, thereby providing developing countries in need with the means to meet their external financing gap and to implement counter-cyclical policies to mitigate the impact of the crisis.

61. SDRs can be held as assets in reserves at no net cost to be converted into hard currency if and when needed by Governments. In contrast to IMF loan financing, there are no conditions on SDRs.

62. Unlike most resources from donors and lenders, the unconditional funds derived from SDR conversions can be used for counter-cyclical public spending that can help counteract domestic recessions.

63. In this regard, the G-77 and China consider it urgent to undertake further examination of the role of enhanced SDRs in the expansion of liquidity, stabilization and reform of the global reserve system.

64. The Group also underlines the need to promote SDRs for development purposes. While acknowledging the recent general allocation of SDRs, the G-77 and China consider it insufficient. The Group urgently calls for a new and significant general SDR allocation, in the current basic period, to meet liquidity needs and promote development. Thereafter regular allocations of SDRs should also be undertaken. In this regard the Group underlines the importance of SDRs as a medium- and long-term potential source of financing for development.

65. The G-77 and China favour undertaking further studies on enhancing the role of SDRs in the global reserve system. In this regard the Group reiterates the request to the Secretary-General to present a report on the role of expanded SDRs by the end of the sixty-fifth session of the General Assembly.

66. The G-77 and China believe also in such enhanced regional and subregional efforts as subregional development banks, regional and subregional reserve currency arrangements and regional and subregional integration initiatives, which may have an important complementary role in liquidity provision and development.

67. In view of the nature of the international discussions on SDRs, the G-77 and China call for the working group to study in more detail the enhancement of the role of SDRs for development financing and liquidity provision.

Reserve system

68. In the Conference, Member States called for further study of the feasibility and advisability of a more efficient international reserve system, including the possible

function of SDRs in such a system, and the complementary roles that could be played by various relevant regional arrangements.

69. The review of the international monetary system is another key element for the international community considering the need to diversify the sources of reserves actives (the placement of international reserves), as a consequence of the global crisis.

70. The global reserve system should be reviewed so as to avoid the problems resulting, inter alia, from the current over reliance on one dominant national currency.

71. The G-77 and China reiterate the need of a more efficient reserve system and also calls for further study regarding the matter, including with relation to the role for SDRs.

72. The global reserve system can be complemented by a stronger role for regional commercial and reserve arrangements.

73. An enhanced role of SDRs would help mitigate the inequality bias of the current global reserve system. It will do well to keep in mind that transfer of resources from developing countries to reserve currency issuers' countries is much higher than ODA to developing countries. It is then necessary to consider possible alternatives in order to diversify global reserves.

Maintaining and expanding policy space

74. The outcome document includes references to fiscal space and the need to close the financing gap; the right to use capital restrictions; the need for flexibility to implement counter-cyclical policies and to pursue tailored responses; and the need to streamline conditionalities of the IMF, the World Bank and the multilateral development banks, among others.

75. Developing countries are still facing an acute and severe shortage of foreign reserves and an external financial gap because of the fallout of the crisis, negatively affecting their balance-of-payments situation. As mentioned previously, the projected financial gap for developing countries is approximately $315 billion in 2010.

76. Conditionalities have required Member States to pursue pro-cyclical policies or adopt monetary and regulatory policies that contribute to fuelling the current crisis. These conditionalities contribute to global asymmetries and put developing countries at a disadvantage relatively to developed countries and undermine incentives for developing countries to seek support funding, contributing to global economic weakness.

77. The Bretton Woods institutions should not impose pro-cyclical policies and conditionalities that undermine the policy space of developing countries. The G-77 and China strongly believe that new and ongoing programmes should not contain unwarranted pro-cyclical conditionalities.

78. We consider that multilateral development banks must move forward on flexible, concessional, conditionality-free, fast-disbursing and front-loaded instruments designed to substantially and quickly assist developing countries to meet their financing gaps and development needs.

79. The recent financial crisis shows that orthodox economic policies were powerless to prevent the crisis. It is now suggested that more accommodating macroeconomic policies, inclusive and pro-poor policies and greater government involvement might do a better job of helping to protect countries from financial turmoil.

80. Conditionalities have led to policies that in many cases constrained development and the ability to act to prevent or mitigate financial crises. It is very clear that in providing international liquidity, the IMF should not impose structural conditions, nor should it insist on macroeconomic policy adjustments when payment imbalances are due to temporary external shocks beyond the control of the borrowing country. The G-77 and China call for the necessary policy space to promote development.

5. Improved monitoring and regulation of financial markets and institutions

Regulation and supervision of financial sectors

81. In discussing the causes of the economic crisis, the outcome of the Conference on the World Financial and Economic Crisis highlighted major failures in regulation, supervision and monitoring of the financial sector, and inadequate surveillance and early warning.

82. These regulatory failures, compounded by over-resilience on market self-regulation, overall lack of transparency, financial integrity and irresponsible behaviour, have led to excessive risk-taking, unsustainably high asset prices, irresponsible leveraging and high levels of consumption fuelled by easy credit and inflated asset prices.

83. The crisis also highlighted the fact that financial regulators, policymakers and institutions failed to appreciate the full measure of risks in the financial system or address the extent of the growing economic vulnerabilities and their cross-border linkages.

84. Despite there being organizations to regulate trade and banking standards, the global monetary system has no such agreed regulatory system for enabling trading partners to avoid distortions stemming from financial shocks, including exchange rate misalignment. The G-77 and China favour the development of a framework for limiting the degree of exchange rate deviations from the fundamentals, thereby providing an important tool in dealing with the crucial but neglected source of imbalance and instability in the globalized economy.

85. The G-77 and China also recognize the negative impacts of excessive short-term capital flows and request the Secretary-General to prepare a report on the role of capital control measures in mitigating the negative impact of those flows, while taking into account the sovereign rights of States.

86. A coordinated and comprehensive global response to the financial and economic crisis is imperative, in order to foster good governance at all levels, including in the international financial institutions and financial markets. To this end, developed countries must resist actions that seem to impose unilateral solutions to the crisis.

87. In addition, due to the fact that global economic growth and a stable international financial system can support the capacity of developing countries to achieve national development goals and internationally agreed development goals, including the MDGs, the G-77 and China stress the importance of cooperative and coordinated efforts by all countries and institutions to cope with the risks of financial instability.

88. Illicit financial flows are estimated to amount to several times global ODA and have a harmful effect on development. Measures to enhance the regulation of and transparency in both the shadow and regular financial systems must therefore include steps to curb illicit financial flows and ensure the return of illicit funds to the legitimate country of origin.

89. Developing countries must be granted full and fair representation in efforts to reform standards and norm-setting and code-formulating bodies outside the United Nations system, such as the Financial Stability Board and the Basel Committee on Banking Supervision.

90. Any proposal to regulate financial markets should address the pro-cyclicality in international bank lending to developing countries, in particular in infrastructure lending, and the bias against developing countries and pro-cyclicality in ratings by international rating agencies.

International surveillance mechanism

91. The current crisis demonstrates the urgent need for introducing internationally harmonized norms and standards for financial regulation and supervision, so that financial leverage and regulatory arbitrage does not endanger the stability of the global system. In this regard, G-77 and China strongly urge against the use of regulatory protectionism by developed countries, as an excuse to not provide to developing countries information about the supervision and regulation of their financial institutions.

92. Surveillance remains the IMF's key crisis prevention tool; however, since the 1980s, the IMF has mainly been focused on problems in emerging and developing countries, devoting insufficient attention to major financial centres and vulnerabilities in global financial markets.

93. While acknowledging that some reform measures have been undertaken in respect of the international financial institutions, there is need for deeper, more meaningful structural reform if those institutions are to retain some level of legitimacy, particularly in the light of the current global financial and economic crisis. Reform has largely been asymmetrical, with far more progress and focus on efforts to be undertaken by developing countries (e.g. on codes and standards) and less progress in terms of institutional reform. In this context, the need for more effective and even-handed multilateral surveillance must be underscored.

94. It is necessary to build an effective framework for enhanced multilateral surveillance and policy coordination against the backdrop of planned governance reform in IMF and other global institutions.

95. The G-77 and China call for the examination of an international insolvency regime governing the resolution of large cross-border financial firms, and early

remedial action frameworks. Lack of action on these fronts would result in a resistance to financial globalization by national authorities.

96. There is need for a more transparent international credit rating system that takes fully into account the needs, concerns and peculiarities of developing countries.

97. Rating agencies should be required to provide information concerning their overall past performance, and/or an independent government agency should provide such information, which would enhance positive competition among rating agencies.

98. There is a critical need for expanding the scope of regulation and supervision and making it more effective with respect to all major financial centres, instruments and actors, including financial institutions, credit rating agencies and hedge funds. The need for tighter and more coordinated regulation of incentives, derivatives and the trading of standardized contracts is also apparent. In this context, developing countries must be given flexibility to adequately regulate their financial markets, institutions and instruments consistent with development priorities and circumstances.

99. The imposition of needlessly onerous regulatory requirements on developing countries must cease and there should be effective, credible and enforceable regulations at all levels to ensure the needed transparency and oversight of the financial system.

100. Recognizing that the primary long-term goal of enhanced surveillance must be to prevent another crisis, there is a need for even-handed and effective IMF surveillance of systemically important countries, major financial centres, international capital flows and financial markets.

101. In this context, the G-77 and China consider that additional mechanisms are needed to allow for the assessment of and response to systemic risk posed by unregulated or less regulated financial sector segments, centres, instruments and actors.

International cooperation in tax matters

102. The G-77 and China emphasize the need to ensure that all tax jurisdictions and financial centres comply with adequate standards of transparency and regulation. To this end, inclusive and cooperative frameworks should be developed to ensure the involvement and equal treatment of all jurisdictions.

103. The Group further believes that international cooperation in tax matters must be encouraged, including within the United Nations, and with other organizations at the regional and international levels. Moreover, there must be consistent and non-discriminatory implementation of transparency requirements and international standards for the exchange of information.

104. The General Assembly and the Economic and Social Council are well placed to promote the reform of the international financial system and architecture, including in areas related to the mandate, scope, governance, responsiveness and development orientation of key international mechanisms.

105. The G-77 and China call for expeditious action by the Economic and Social Council on the strengthening of the Committee of Experts on International Cooperation in Tax Matters in particular. The conversion of the Committee into an intergovernmental subsidiary body of the Council would allow for enhanced international cooperation towards reducing skill, information and technological gaps in developing countries and improving developing countries' voice and participation in norm development in tax matters.

6. Reform of the international economic and financial system: voice and participation of developing countries in the Bretton Woods institutions

Voice, representation and voting power of developing countries

106. The G-77 and China stress the vital need for the ambitious and expeditious reform of the Bretton Woods institutions, particularly their governance structures, based on the full and fair representation of developing countries, in order to address the democratic deficit in these institutions and improve their legitimacy. These reforms must reflect current realities and ensure the full voice and participation of developing countries. As a first step, the reforms should achieve, at least, parity of voting power for developing countries as a group in the decision-making process within the Bretton Woods institutions.

107. Reform of global economic governance issues is essential for many other changes in the international financial architecture. International financial institutions need democratic, responsive and accountable governance reflecting the realities of the twenty-first century. We have noted the recent decision to shift the voting in the International Bank for Reconstruction and Development to developing and transition countries, bringing their total voting power to 47.19 per cent, and a shift in International Finance Corporation voting power to developing and transition countries, bringing their total voting power to 39.48 per cent. We have also noted that this process will be reviewed in 2015. The G-77 and China maintain that the said increases should be higher than what has been agreed upon thus far. The G-77 and China reiterate that the reform process should keep on moving in successive steps towards, at least, parity, and towards the objective of providing developing countries full and fair representation.

108. The G-77 and China fully acknowledge the fact that greater voice and representation will result in increased participation of developing countries in the multilateral system and the global economic and financial decision-making process. It is noteworthy that, at present, developing countries bear a significant part of contributions to the Bretton Woods institutions' financial capacity, despite holding minority rights.

Reform of the International Monetary Fund

109. The G-77 and China believe that two critical actions must be pursued. First, there is a need for fundamental reforms in the IMF governance structure to be implemented. Second, the IMF must provide more comprehensive, even-handed and flexible financial responses to the needs of member countries, without imposing

pro-cyclical conditionalities, respecting their need for policy space and helping them to overcome the crisis.

110. IMF should retain its principal and primary mandate, which is helping out countries with difficulties in their balance of payments. IMF policies should not undermine the development priorities and strategies of developing countries.

111. The G-77 and China note with grave concern that the International Monetary Fund is still prescribing pro-cyclical policies in developing countries, which can unnecessarily exacerbate economic downturns, underscore that such policies are in violation of the international consensus to undertake a concerted effort to stimulate global demand and emphasize that conditionalities still require Member States to pursue pro-cyclical policies or adopt monetary and regulatory policies that exacerbate the impacts of the current crisis, thus placing developing countries at a disadvantage relative to developed countries, and that are a disincentive for developing countries to seek support funding. In this regard, the G-77 and China call on the Bretton Woods institutions to refrain from imposing pro-cyclical polices and conditionalities.

112. Progress made in strengthening the resource base of the Fund and improvements in its lending toolkit to address the global crisis is constricted by slow progress in longer-term reforms of the Fund. The IMF needs a more representative, responsive and accountable governance, reflecting the realities of the twenty-first century. The reform of IMF governance is therefore essential for all other changes involving the role for the Fund.

113. The G-77 and China deem quota shares to be the defining governance problem at the Fund. In this regard, a key initial step is to recognize that only modest progress has been achieved so far. The changes in voting power have been insufficient compared with the changes that have occurred in the global economy. The 2008 quota and voice reform will basically lead to a realignment of existing shares, primarily through a redistribution among the group of emerging market and developing countries.

114. The G-77 and China call for quota realignments in both IMF and the World Bank to result in an equitable distribution of voting power between developed and developing countries without diluting the quotas and shares of individual developing countries. The existing quota formula, biased against developing countries, has to be improved before it is used again. The next realignment of quotas in favour of developing countries should go far beyond the initial modest outcome achieved during the 2008 spring meetings.

115. The G-77 and China believe that decision-making rules should be changed in order to strengthen the voice and participation of developing countries.

116. The Group also underlines the need to promote SDRs for development purposes. While acknowledging the recent general allocation of SDRs, the G-77 and China consider it insufficient. The Group urgently calls for a new and significant general SDR allocation, in the current basic period, to meet liquidity needs and promote development. Thereafter regular allocations of SDRs should also be undertaken.

117. The G-77 and China consider that it is important to maintain the present quota voting system under review. The present governance structure indirectly impairs the

Fund's capacity to undertake objective and even-handed surveillance over the economies of its major stakeholders.

118. The latest manifestations of the crisis show that the IMF has not performed any significant reform in its business model yet. Furthermore, it has shown that the IMF is still tilted towards the interests of a particular group of countries and that it has not performed any significant reform to assist developing countries that are constantly struggling with development problems and liquidity crises. The G-77 and China believe that advocating pro-cyclical policies or including conditionalities which may compromise policy space, safety nets and policies to protect the most vulnerable members of the community in times of crisis are counterproductive and increase the costs of the crisis.

119. The G-77 and China reiterate the call of the outcome document for an open, transparent and merit-based selection process, without regard to nationality, of middle and senior management and heads of the Bretton Woods institutions, which needs to be urgently and vigorously pursued.

Reform of the World Bank and regional development banks

120. The G-77 and China call for the expeditious completion of a much more ambitious process of reform of the World Bank's governance structure and of an accelerated road map for further reforms on voice, participation and enhanced voting power of developing countries based on an approach that truly reflects its development mandate and with the involvement of all shareholders in an equitable, transparent, consultative and inclusive process.

121. The G-77 and China deem it important to strengthen the concepts of ownership and policy space. In that respect, it must be borne in mind that client countries are the owners of their development policies and that selectivity in World Bank's strategy and actions must be guided first and foremost by developing countries' priorities and preferences.

122. The Group of 77 and China recognize with concern that conditionalities are still attached to World Bank projects, which are not based on or justifiable by technical considerations. The Group, therefore, considers that ensuring on-time and predictable delivery of projects without unwarranted conditionalities and solely based on needs and priorities of Member States as necessary for a reformed World Bank.

123. The G-77 and China recognize the importance of strengthening the role of all regional development banks in the search for solutions to overcome the financial and economic crisis, as well as in the provision of medium- and long-term responses to the development needs of developing countries, such as measures to increase the financial and lending capacity of all regional development banks, including the African Development Bank, the Asian Development Bank, the Caribbean Development Bank and the Inter-American Development Bank. Furthermore, the G-77 and China recognize the importance of other regional, interregional and subregional initiatives and arrangements aimed at promoting development, cooperation and solidarity among their members, such as the Bank of the South, the Bank of ALBA and the Andean Development Corporation.

124. The G-77 and China call for an early assessment of the adequacy of the capital increases recently agreed upon by the regional development banks' shareholders in

the light of potential strong demand for financing from developing countries as a result of the current crisis.

Role of the United Nations

125. The G-77 and China reaffirm that the United Nations is the organization with the central role and legitimacy to deal with development and related issues.

126. The G-77 and China reiterate that the United Nations is the appropriate venue to discuss economic and financial affairs and decide on the best follow-up and alternatives to meet the needs and challenges of the twenty-first century.

127. The Group calls for strengthening of the role of the United Nations in international economic and financial affairs, including its coordinating role in global economic governance. Likewise, it is important to promote greater cooperation between the United Nations and the international financial institutions, including the early review of the implementation of the cooperation agreement between the United Nations and the Bretton Woods institutions.

128. The Group of 77 and China call for a fundamental role for the United Nations in the reform process of the global governance structure of the Bretton Woods institutions.

7. Strengthening the role of the United Nations in global economic governance

Role of the United Nations

129. As set forth in its Charter, the role of the United Nations includes achieving "international cooperation in solving international problems of an economic, social, cultural, or humanitarian character" and "harmonizing the actions of nations in the attainment of these common ends". The United Nations is the only global body with universal membership and unquestioned legitimacy and is therefore well positioned to address global economic governance with the objective of reaching sustainable and socially balanced economic development.

130. The current financial and economic crisis, as well as the failures and gaps in international financial governance, have served to underscore the urgent need for the United Nations to assume a central and proactive role in global economic governance. The deep social impact of the global financial and economic crises and the accompanying environmental challenges requires a truly global, universal and integrated response. In this context, the G-77 and China reaffirm that the United Nations is the organization that must play the central role and has the legitimacy to deal with global economic governance and development and related issues.

131. The G-77 and China also reiterate that the United Nations has the comparative advantage and is the appropriate venue in which to discuss economic and financial affairs and decide on the best follow-up and alternatives to meet the needs and challenges of the twenty-first century.

Strengthening the role of the United Nations

132. For the United Nations to fulfil its role in global economic governance, the political will of all Member States to commit to United Nations processes, to

multilateralism and its underlying values, is critical. Member States must commit to working in solidarity on coordinated and comprehensive global responses to global economic governance issues and to undertaking actions aimed at strengthening the role of the United Nations development system in responding to global crises and their impact on development. For this, the United Nations must also be equipped with the necessary resources and capabilities to effectively and quickly address global challenges.

133. There is a need for a more coherent and effective response of the United Nations on issues related to global economic governance. In that regard, an appropriate follow-up mechanism should be established within the United Nations to bridge the gap between policymaking and implementations of commitments in that area.

134. The United Nations development system's comprehensive crisis response should be further developed to support national development strategies through a coordinated approach by United Nations funds and programmes, specialized agencies and international financial institutions, including at the country level. There is also a need to strengthen the existing monitoring, surveillance, technical assistance and coordination roles of the United Nations. It is also important for Member States to support the United Nations to build on and strengthen the financing for development process, which would help, inter alia, to enhance coherence and consistency of the international monetary, financial and trading systems and to ensure that they support the implementation of the internationally agreed development goals and developing countries' efforts to achieve sustainable development.

135. In addressing the current financial and economic crisis, the United Nations needs to strengthen its support to developing countries to address the economic, human and social impacts of the world financial and economic crises, in order to safeguard and build upon hard-won economic and development gains to date, including the progress being achieved towards the implementation of the MDGs. There is also a need to foster an inclusive and sustained recovery and to provide continued support for sustainable development efforts by developing countries, with due regard to the principle of ownership and leadership in the implementation of national strategies and policies. It is also important to ensure that developing countries have the fiscal and policy space to determine national goals and implement national policies and strategies.

The United Nations and global economic governance

136. The G-77 and China view the unique perspectives and representativeness of the United Nations as critical to ensuring legitimacy to the reform and functioning of our international financial institutions. Accordingly, we reiterate the need for mechanisms to ensure increased cooperation and exchanges between the United Nations and international financial institutions.

137. In this context, the G-77 and China stress the urgent need to review the agreement between the United Nations and the Bretton Woods institutions in collaboration with these institutions, focusing particular attention on the mechanisms for enhancing coordination and cooperation between the United Nations and the institutions, as well as the opportunities for contributing to strengthening the development mandates and effectiveness of both institutions, as

part of the ongoing process of reforming and strengthening the international financial and economic system and architecture.

138. The Group of 77 and China call for a fundamental role for the United Nations in the reform process of the global governance structure of the Bretton Woods institutions.

139. The Group of 77 and China request the co-facilitators to convene a specific meeting of the working group to address the final recommendations of our deliberations in what we can call the way forward within the next two weeks.

8. The way forward

140. We reiterate that the current financial and economic crisis, as well as the failures and gaps in international financial governance, have served to underscore the urgent need for the United Nations to assume a central and proactive role in global economic governance.

141. The United Nations is the only global body with universal membership and unquestioned legitimacy and is therefore well positioned to address global economic governance.

142. The United Nations has full legitimacy to address the pressing needs for global economic actions facing the world today. The General Assembly and the Economic and Social Council have also a clear mandate on economic affairs and a special and unique role to play.

143. It is the conviction of the G-77 and China that the working group on the financial and economic crisis will continue its work.

144. Moreover, the working group should be organized in accordance with the need for more focused discussion among the Member States on the issues and actions requiring follow-up. The categorization of issues and the organization of work around an agreed list of issues and schedule should be undertaken as an initial task of the working group in its first session or sessions following the General Assembly session.

145. We also believe in the need for continuing discussions regarding such issues as the modalities of enhancing the role of SDRs for development financing and liquidity.

146. We recognize the important contribution to our discussion of the report done by the Commission of Experts of the President of the General Assembly on reforms of the international monetary and financial system, and in this regard we call for similar initiatives.

147. Bearing in mind the worst financial and economic crises since the Great Depression, which still remain, and recognizing their continuing severe impact on developing countries, particularly the least developed, and also being deeply worried about additional negative impacts as part of the second wave of the crisis, which is happening now but also poses a serious threat to developing countries for years to come, we recommend holding a follow-up conference on the financial and economic crises and its impact on development in 2012.

148. The G-77 suggests that the first report of the working group address, among other matters contained in the outcome document, the need for concrete actions to strengthen the central role of the United Nations on global economic governance. These concrete actions should be:

(a) Adoption by the General Assembly of a resolution at its sixty-fifth session on global economic governance and matters related to the working group, and especially the central role of the United Nations in global economic governance;

(b) A report of the Secretary-General on the central role of the United Nations on global economic governance.